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**Supporting new product commercialization through managerial social ties and market  
knowledge development in an emerging economy**

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**Abstract** While it has been advocated that the generation and application of market knowledge shape marketing capabilities to commercialize new products, the weak institutional environment makes access to critical market knowledge challenging in emerging economies. Critically, managerial social ties with business and political institutions may complement the firm's market orientation (MO) to obtain market knowledge that is not available in the open market in emerging economies. This study draws attention to the differential roles of business and political ties in complementing or inhibiting the effects of market orientation on exploratory and exploitative marketing capabilities in one of the "Next Eleven" emerging economies, Iran. The results help firms operating in emerging economies to identify the conditions under which business and political ties help to overcome institutional limitations, complement market-oriented efforts, and successfully commercialize new products.

**Keywords:** *Emerging economies, Exploratory marketing, Exploitative marketing, Market knowledge, Business ties, Political ties, New product commercialization*

Many emerging economies have transitioned over the past couple of decades from being centrally planned to more market-based in the pursuit of economic development (Gao, Zhou, & Yim, 2007; Malik & Korabe, 2009). A consequence of this transition is increasing the level of consumers' purchasing power parity, with consumers preferring better quality products that address their unique preferences more than low-cost products that offer basic functionality (Wu, 2013). In such conditions, firms must accurately sense and predict market needs ahead of competitors and quickly respond to them through the commercialization of new products. However, the significant investment of resources in new product commercialization may result in market failure when firms are unable to effectively link new products to customers (see the comparable argument in Day, 2011).

It is suggested that the firm's market-orientated behavior directed towards the generation, dissemination, and responsiveness to market knowledge is the foundation upon which marketing capabilities are built to commercialize new products (Murray, Gao, & Kotabe, 2011; Ngo & O'Cass, 2012). Prior research indicates that greater environmental uncertainty drives firms to place more emphasis on the generation of knowledge to develop capabilities to address market changes and competitor actions (Murray et al., 2011). However, in highly uncertain environments such as emerging economies, the generation of market knowledge is challenging. Emerging economies are characterized by a poor institutional environment, underdeveloped legal system, and tight government control of key resources and information (Wu & Chen, 2012). In this setting, managers will need to cultivate social ties with business and political institutions to complement their efforts to access knowledge that is not available in the open market (e.g., emerging regulatory policies) (Sheng, Zhou, & Li, 2011). As such, firms operating in emerging economies need to deploy managerial social ties as a substitute for a weak institutional environment and an important complement to their organizational processes that are directed to develop market knowledge (Xu, Huang, & Gao, 2012; Dong, Li, & Tse, 2013).

Despite the growing attention given to managerial social ties, little is known about how specific forms of managerial social ties with business partners (hereafter business ties) and political institutions (hereafter political ties) affect the firm's market orientation (MO). In particular, the extent that business and political ties complement MO to help firms create and refine marketing capabilities to commercialize new products remains unexplored. Our study aims to advance the literature by investigating the differential role of business and political ties in complementing or impeding the effects of MO on the creation and refinement of marketing capabilities in the context of Iran, one of the "Next Eleven" emerging economies.

We adopt the premise that the creation and refinement of organizational capabilities are dependent on learning and utilizing intelligence about the market (Atuahene-Gima, 2005; Vorhies, Orr, & Bush, 2011). Building on research on dynamic capabilities, we adopt the premise that firms refine existing and create new organizational routines through two forms of capabilities - exploratory and exploitative capabilities (Atuahene-Gima, 2005; Lisboa, Skarmeas, & Lages, 2011; Vorhies et al., 2011; O'Cass, Heirati, & Ngo, 2014). Building on these premises, we view MO as the foundation of two key capabilities in which we refer to as exploratory and exploitative marketing capabilities. In this study, exploratory and exploitative marketing capabilities represent the firm's ability to create new marketing routines and refine existing marketing routines (e.g., sales, pricing, promotion, and distribution) to commercialize new products (Voss & Voss, 2013; O'Cass et al., 2014). We also argue that MO is not the sole foundation upon which firms build exploratory and exploitative marketing capabilities, managerial social ties are required to complement this process, particularly in the context of emerging economies with weak institutional environments.

Our study contributes to the literature in three ways. First, we develop a framework (Figure 1) to examine the moderation effects of business and political ties on the relationships between MO, exploratory marketing capability, and exploitative marketing capability. Due to

the distinctive forms of information that business and political ties provide firms, we show that these ties complement MO in different ways. While business ties help market-oriented firms to refine their marketing deficiencies and improve existing marketing routines more effectively, political ties complement MO and promote the capacity to create new marketing routines. Second, we theorize that political ties are not always beneficial, and the over dependence on political ties has a dark-side. In particular, over-emphasis on political ties can impede the attention given by market-oriented firms' to market changes. Consequently, they may seek to excessively leverage political ties to secure their market position (e.g., make monopoly), rather than investing in the development and commercialization of new products. Third, we advance a multifaceted view of new product performance and show that exploratory and exploitative marketing capabilities have different effects on distinctive aspects of new product performance, in terms of customer- and financial-based performance. The results of this study may help both local and multinational firms operating in emerging economies to identify the extent that business and political ties can help them to overcome institutional limitations and support the effect of MO on marketing capability development to successfully commercialize new products.

----- Insert Figure 1 here -----

## **Background**

Successful new products are paramount for firms to respond to market dynamism and seize market opportunities (Rodríguez-Pinto, Carbonell, & Rodríguez-Escudero, 2011). Seizing market opportunities is more critical for firms operating in emerging economies, due to rapid economic development in many of these countries and their transition towards market-based systems (Malik & Korabe, 2009; Mellahi, Demirbag, & Riddle, 2011). In an attempt to achieve success in emerging markets, firms are paying more attention to the development and

commercialization of new products to enhance their market position (Kotabe, Jiang, & Murray, 2011; Zhang & Wu, 2013). However, the literature reports high (over 50%) new product failure, raising concerns about the true performance-enhancing value of new product efforts. In addressing this concern, it is suggested that many new products fail to take off, when firms use obsolete and ineffective marketing capabilities that are less capable of linking new products to customers (Kyriakopoulos & Moorman, 2004; Day, 2011).

Day (2011) suggests closing the gap between existing marketing capabilities that may be obsolete and creating new marketing capabilities (framed as the marketing capabilities gap) as the remedy to drive organizational responsiveness and build the ability to successfully commercialize new products (see also Danneels & Kleinschmidt, 2001; Kyriakopoulos & Moorman, 2004; Danneels, 2008). The necessity of closing the marketing capabilities gap is also evident in research on the organizational fit (Harmancioglu, Droge, & Calantone, 2009; Henard & McFadyen, 2012) and rigidity (Zollo & Winter, 2002; Atuahene-Gima, 2005; Malik & Korabe, 2009). The literature on dynamic capabilities provides a theoretical lens through which to examine how firms refine existing and create new routines using two forms of capabilities - exploratory and exploitative capabilities. We apply dynamic capability literature in the context of marketing and view exploratory and exploitative marketing capabilities as the means by which firms close their marketing capabilities gap (Lisboa et al., 2011; Vorhies et al., 2011). Building on Voss and Voss (2013) and O'Cass et al. (2014), we conceptualize exploratory marketing capability as a firm's ability to create new marketing routines marketing routines (e.g., sales, pricing, promotion, and distribution). Exploitative marketing capability represents a firm's ability to refine its existing marketing routines (e.g., sales, pricing, promotion, and distribution).

## **Theory and hypotheses**

MO represents the organizational-wide behavior focused on understanding the market and revising organizational routines to meet customer needs (Kohli & Jaworski, 1990; Jaworski & Kohli, 1993). These processes include the generation, dissemination, and responsiveness to intelligence (or knowledge) pertaining to current and emerging customer needs and market trends (Murray et al., 2011). A firm's knowledge about customers and market trends feeds into its organizational decision-making process to support its responsiveness (Jaworski & Kohli, 1993; Hult, Ketchen, & Arrfelt, 2007). Therefore, the generation and dissemination of market knowledge are the foundation for firms to undertake responsive actions to address the markets' needs through the development and deployment of specific capabilities (Murray et al., 2011; Ngo & O'Cass, 2012). Generating new market knowledge and synthesizing new knowledge with existing knowledge provides the basis for new and improved understanding of the market, which drives firms to create and adapt marketing capabilities to address market changes (see similar arguments in Helfat & Peteraf, 2003; Vorhies et al., 2011).

Recent research on the micro - foundations of organizational capabilities suggests that when employees share their knowledge and compare their opinions with their colleagues an advanced level of clarity between the actions required to execute tasks and the performance outcomes of such actions (Zollo & Winter, 2002; Turner & Fern, 2012). In effect, the firm's marketing capability is created or refined, when employees reconfigure and advance their knowledge and experiences about market changes and the performance of marketing activities (Vorhies, 1998; Miller, Pentland, & Choi, 2012). March (1991) argues that the integration, reconfiguration, and application of knowledge between employees may result in the creation of different routines, because their experience and learning behavior are unique (see also Turner & Fern, 2012). In particular, employees who engage in searching for new knowledge and experiment with new practices will create new communication, pricing, sales, and distribution routines that make a unique environment for linking new products to customers.



Employees who engage in refining existing knowledge and practices are likely to improve the quality of existing marketing routines to link new products to customers more efficiently. Building on this theoretical foundation, we argue that developing and disseminating new market knowledge across the firm will result in the creation of different forms of marketing capabilities, as firms and their employees' experience and learning behavior are unique (Zollo & Winter, 2002; Turner & Fern, 2012). To this end, we view MO as the foundation of exploratory and exploitative marketing capabilities. Therefore,

*H1: MO is positively related to (a) exploratory marketing capability and (b) exploitative marketing capability.*

#### *Moderating effects of business and political ties*

Managerial social ties are the set of managerial connections with specific social partners to access market knowledge embedded within those networks (Atuahene-Gima & Murray, 2007; Kemper, Engelen, & Brettel, 2011). Managerial social ties allow firms to overcome weak institutional infrastructure in emerging economies and access market knowledge that is not available in the open market (Boso, Story, & Cadogan, 2013; Dong et al., 2013). Existing research has identified two distinct forms of managerial social ties - business and political ties - which provide access to diverse knowledge and support the firm's efforts to pursue performance objectives differently (e.g., Wu, 2011; Heirati, O'Cass, & Ngo, 2013).

We define business ties as interpersonal managerial connections with other firms outside and inside the industry (e.g., managers in suppliers and partner firms) through formal or informal interactions (Atuahene-Gima & Murray, 2007; Sheng et al., 2011; Boso et al., 2013; Dong et al., 2013). Past research shows that business ties promote learning and facilitate knowledge transfer regarding competing products, market trends, and competitors' strategies (Kemper et al., 2011; Heirati et al., 2013). In particular, ties with firms outside the industry help to capture broad market knowledge and experiences, while ties with firms inside the

industry capture deeper knowledge within a market (Atuahene-Gima & Murray, 2007). We argue that business ties complement the effects of MO on exploratory and exploitative marketing capabilities in two ways. First, business ties complement the firm's market-oriented efforts to access a potentially large pool of diverse knowledge embedded in a business network (Wu & Chen, 2012). In particular, the interpersonal interactions between managers in other firms in a business network provides access to diversified knowledge about emerging market trends, customer preferences, and competitor actions. It has been advocated that the larger knowledge pool trigger innovativeness, because it enhances the possibility of finding new combinations of diverse knowledge elements. Therefore, we expect market-oriented firms with stronger business ties to be better at acquiring diverse knowledge and undertaking effective actions leading to the creation of new or refinement of existing marketing routines. Second, business ties in the form of interpersonal managerial connections between business partners (e.g., suppliers) are built on long-term commitment and trust among partners to achieve common goals (Sheng et al., 2011; Wu & Chen, 2012). Such commitment and goal convergence affects the willingness to not only share knowledge, but also utilize the knowledge to identify each other's deficiencies and engage in joint problem-solving processes to address those deficiencies (see also discussions on goal convergence in business ties in Wu & Chen, 2012). Thus, we expect that firms will be able to refine their marketing deficiencies more effectively, when business ties complement the effect of MO on exploratory and exploitative marketing capabilities by facilitating knowledge sharing and collaboration among business partners within a social network. Therefore,

*H2: Business ties positively moderate the relationships between (a) MO and exploratory marketing capability and (b) MO and exploitative marketing capability.*

Political ties represent interpersonal managerial connections with officials at various levels of government and in regulatory and supporting organizations such as tax bureaus and

state banks (Luo, Hsu, & Liu, 2008; Dong et al., 2013; Heirati et al., 2013; Zheng, Singh, & Mitchell, 2014). Governments play an important role in all economies, but their role is more prevalent in emerging economies, because political ties may compensate for the lack of well-established institutions by providing firms with access to policy information and valuable resources (Wu, 2011; Zheng et al., 2014). Governments enact economic regulations over firms (e.g., pricing policies for an industry) and impose social regulations which go across industries such as environmental law, occupational safety, and labor issues that guide market transactions (Hillman & Hitt, 1999; Wu, 2011). Therefore, achieving fit between the governmental regulation and the firm's commercialization activities is paramount for marketers. It is suggested that political ties facilitate achieving this fit by providing access to important knowledge about institutional support, emerging regulatory policies, tax subsidies, and industrial statistics that may not be available in the open market (e.g., Acquaah, 2007; Boso et al., 2013; Dong et al., 2013). Political ties also provide knowledge about industrial information (e.g., unpublished market intelligence and statistics) and emerging development plans (Dong et al., 2013).

We argue that political ties complement MO's impact on developing exploratory and exploitative marketing capabilities in two ways. First, political ties facilitate access to knowledge (e.g., emerging regulatory policies), which enables firms to predict emerging market changes (Wu, 2011; Dong et al., 2013). As such, market-oriented firms with strong political ties should be able to access critical knowledge and undertake proactive actions better than firms that are not market-oriented. Second, political ties facilitate access to valuable resources (e.g., tax subsidies, rebates) to support new product commercialization and new marketing initiatives. This can be especially beneficial when firms encounter difficulties in channels to secure resources (Hillman & Hitt, 1999; Zheng et al., 2014) required to invest in the creation or refinement of their marketing capabilities. Therefore, we expect that the

relationships between MO and the firm's capacity to create new and refine existing marketing capabilities will be stronger, when a firm accesses complementary knowledge and institutional support through its political ties.

Unlike business ties, political ties are not grounded in long-term commitment and common goals. In particular, government officials may try to influence or require firms to engage in projects with positive social benefits, rather than accommodating the firm's self-interest and financial objectives (Sheng et al., 2011; Wu, 2011; Heirati et al., 2013). In this sense, governmental officials may provide firms with information that reduce their motivation or raise their uncertainty about investments in setting up new marketing initiatives or entering new market domains. Sheng et al. (2001) argue that managers may give up their autonomy in decision-making and pursue activities that satisfy government officials to obtain the government's support. Furthermore, many firms may seek to excessively leverage political ties to secure their market position through monopoly rather than investing in the development and commercialization of new products. To this end, over dependence on political ties can negatively influence a firm's capacity to achieve fit between its marketing capabilities and governmental regulation, when government officials lose their power and another political party takes control (Sheng et al., 2011; Dong et al., 2013). We conclude that while political ties can complement MO, over dependence on political ties can negatively influence the role of MO in sensing market changes and diminish the motivation to create new or improve existing marketing routines required to address market changes. Therefore,

*H3: Political ties have a non-linear (inverse U-shaped) moderation effect on the relationships between (a) MO and exploratory marketing capability and (b) MO and exploitative marketing capability.*

*Outcomes of exploratory and exploitative marketing capabilities*

The current literature has reported mixed results about the outcomes of exploratory and exploitative marketing capabilities. Although many studies have reported positive relationships between exploratory marketing, exploitative marketing, and new product performance, some find these relationships can be negative (Kim & Atuahene-Gima, 2010; Vorhies et al., 2011; Lisboa, Skarmeas, & Lages, 2013). An underlying reason for the mixed results reported in the literature is the focus on financial indicators (e.g., profitability and return on investment) to measure new product performance. However, new product performance is multifaceted, and firms may commercialize new products for non-financial reasons. These reasons include penetrating a new product-market domain and gaining market share, which may provide long-term benefits rather than short-term financial outcomes (Storey & Easingwood, 1999). Building on Griffin and Page (1996), we view new product performance as a multifaceted concept and examine the independent effects of exploratory and exploitative marketing capabilities on the customer-based and financial-based aspects of new product performance (see also Langerak, Hultink, & Robben, 2004). In this study, customer-based performance represents the extent that a firm achieves objectives with a new product launched within the previous one year, in relation to customer acceptance, market share, and sales growth (Griffin & Page, 1996). Financial-based performance represents the extent that a firm achieves objectives with a new product in relation to profitability, return on investment, and operational costs (Langerak et al., 2004).

It is suggested that new and novel marketing routines help to differentiate a new product in the market by creating a unique purchasing experience for customers (e.g., see discussions on entertainment value in Kim & Forsythe, 2009). In particular, the creation of new marketing routines such as direct sales portal not only allows commercialization of a new product, but also allows customers to enjoy the experience of customizing the final product. Differentiating a new product in the market increases the perceived value of a new product, which increases

customer demand for the product and decreases the risk of customers defecting to competitors (Li & Calantone, 1998; Lisboa et al., 2011). Therefore, exploratory marketing capability can help firms to drive customer acceptance and promote market share of their new products. The ability to create new marketing routines is also critical for firms entering new markets and growing market share, where renewing marketing activities such as product pricing and distribution channels is necessary to embrace the social and legal changes in the new market. However, setting up new marketing initiatives is costly and can negatively affect the new product's financial performance (Kim & Atuahene-Gima, 2010; Vorhies et al., 2011). To this end, we expect that exploratory marketing capability contributes more to a new product's customer-based performance than its financial-based performance. Therefore,

*H4a: Exploratory marketing capability has a greater influence on new product's customer-based performance than financial-based performance.*

Exploitative marketing capability helps in linking a new product to customers via the refinement of existing marketing routines (e.g., existing sales and distribution methods). Exploitative marketing capability allows a firm to address market changes, while avoiding the high cost of developing new marketing routines (Lisboa et al., 2011; Voss & Voss, 2013; O'Cass et al., 2014). It is advocated that many customers prefer new products whose benefits outweigh their costs (Li & Calantone, 1998), indicating that exploitative marketing capability can help firms to drive the new product's customer-based and financial-based performance. However, continuous refinement of existing marketing routines that are utilized as best practice may create barriers to search for new ideas and routines to create a unique purchasing experience for customers (see discussions on capability lifecycle in Helfat & Peteraf, 2003). Hence, exploitative marketing capability is more effective, when firms seek to minimize marketing costs rather than invest in experimenting with new and differentiated ways to commercialize new products. To this end, we conclude that exploitative marketing capability

contributes more to a new product's financial-based performance than customer-based performance. Therefore,

*H4b: Exploitative marketing capability has a greater influence on a new product's financial-based performance than customer-based performance.*

## **Methodology**

We used the questionnaire protocol as the primary means for data collection. We administered two questionnaires to a sample of senior and mid-level managers of industrial firms in Iran. We used a multiple informant design, as data collected from two hierarchical levels are more superior and help to minimize common method bias which may result when a single informant design is employed (Zhou et al., 2008; Damanpour, Walker, & Avellaneda, 2009). We asked senior managers (e.g., CEO) to answer questions related to MO, business ties, political ties, and control variables (Questionnaire A). Mid-level managers (e.g., marketing managers) answered questions related to exploratory and exploitative marketing and customer-based and financial-based new product performance (Questionnaire B). Drawing on Ngo and O'Cass (2009), a master list of 800 firms was generated from a business directory of large-sized firms utilizing a systematic sampling approach. Systematic sampling is a statistical method involving the selection of elements from an ordered sampling frame, which is a widely adopted approach in marketing research when sampling frames are available (e.g., Johnson, 1999; Black, 2011; O'Cass et al., 2014). Following this approach, we arranged firms listed in the in the directory using firm size from largest to smallest, to ensure that the selected firms have distinct hierarchical and management levels (e.g., senior and mid-level managers). Given that ordering firms is related to the characteristics of interest (e.g., firm size), systematic sampling increases the representativeness of the sample (see Malhotra, 2006). We pre-screened selected firms through the initial contact to ensure they had launched a new product within the previous one year and then we invited them to participate in the study. For firms that had launched more

than one new product over the previous year, we selected a new product randomly and provided an instruction asking respondents to complete the questionnaire with respect to the selected new product. To increase generalizability of the results, the sample spanned multiple industries including industrial machinery, automotive, electronics and telecommunication, chemical, and pharmaceutical (see a similar approach in Kotabe et al., 2011; Wu & Chen, 2012; Xu et al., 2012).

### *Country setting*

Iran as an emerging economy is an appropriate context, because it has over the past couple of decades transitioned from being a centrally planned to more market-based economy through liberalization and privatization (Soltani & Wilkinson, 2012). Such transition, according to some, leads to rapid environmental changes and high levels of uncertainty (Gao et al., 2007; Malik & Korabe, 2009), forcing firms to renew and improve their marketing routines (see also Atuahene-Gima, 2005). In addition, Iran is a member of Next Eleven, a group countries with a high potential of becoming the world's largest economies in the 21<sup>st</sup> century along with the BRICs (Wilson & Stupnytska, 2007). Iran's economy is also the 18<sup>th</sup> largest economy by purchasing power parity, and it is forecast to become the 12<sup>th</sup> by 2015 (IMF, 2010). As purchasing power increases, customers come to prefer better quality products that address their unique preferences more than low cost, affordable products that offer basic functionality. In such conditions, firms must accurately sense and predict market needs ahead of competitors and quickly respond to them, which forces the renewal of marketing routines (Wu, 2013).

Iran as a Middle-Eastern country, with a strong collectivist culture (Soltani & Wilkinson, 2012), appears as a suitable context for examining the role of business and political ties for several reasons. First, the Iranian government views the development of industrial firms as strategically important to lessen its dependence on oil and petroleum export. Thus, it supports these firms with institutional support, preferential policies, and tax breaks. Therefore,



networking with government officials is a pervasive strategic choice (see also the comparable discussion on China in Sheng et al., 2011). Second, Iran's transition to a market-based economy and its increasing purchasing parity enhance the level of uncertainty, competition, and risk of failures in the market. In this sense, managerial social ties allow firms connected in a network to face uncertainties and competition by sharing their resources (e.g., market knowledge) and using government institutional support (Sheng et al., 2011; Zheng et al., 2014).

### *Data collection*

Drawing on Coviello et al. (2002), we employed a drop-and-collect data collection technique. Drop-and-collect can yield response rates similar to a person-administrated approach, at a cost equivalent to questionnaire mail outs. Following Boso et al. (2013), we examined the quality of completed questionnaires by asking informants to indicate their knowledge about the questions asked and their confidence in their ability to answer the questions on a seven-point Likert-type scale from 1 = "not at all" to 7 = "very much so". Informants who scored below four on any of these two questions were removed. Finally, we distributed 500 survey packages (including two questionnaires A and B per package) and received 169 usable survey packages. The average firm size was 645, and the average firm age was 25 years. Of the firms studied, 65% firms commercialize new products in collaboration (e.g., joint venture, license) with international firms (e.g., Siemens, Valeo, Renault), and 35% developed and commercialized new products using their internal resources and capabilities. Over 70% of the firms studied exported their products to other countries. Table 1 illustrates the profile of the sample in terms of industry sector, size, age, and innovation mode. We found no significant differences between the sample of participating and non-participating firms with respect to their size and age. Thus, non-response bias was not a concern. Further, the mean scores of the informants' knowledge about the questions asked and their confidence to answer were over 5.6, indicating that informants were knowledgeable about the issue being studied and confident they could answer.

----- Insert Table 1 here -----

### *Measures*

We measured all constructs using established measures in the literature on a seven-point scales ranging from “1= not at all” to “7= very much so”. All measures are summarized in Appendix I. We measured MO using eight items from Zhou et al. (2008). Exploratory and exploitative marketing capabilities were measured using five items each from O’Cass et al. (2014). Business ties were measured using three items from Atuahene-Gima and Murray (2007). Political ties were measured using three items from Sheng et al. (2011). We measured the new product’s customer- and financial-based performance using three items each from Griffin and Page (1996).

We also assessed the effects of several control variables including; technological turbulence, market turbulence, organizational slack, firm size, firm age, and firm type. These measures were taken and controlled because previous research indicates that these variables have the potential to influence new product performance. Technological turbulence and market turbulence were measured using two items each focusing on the speed and instability of technology and customer preference changes in the market from De Luca and Atuahene-Gima, (2007). Organizational slack was measured using two items focusing on discretionary financial resources within a firm from Danneels (2008). We focused on firm type (as a dummy variable), firm size, and firm age to investigate differences between firms operating in different areas (e.g., automotive and electronics and telecommunication) with different ages (e.g., new entrants, established) and different sizes.

### *Common method bias*

We used several approaches and empirical tests to avoid and check for common method bias. First, we employed the multiple informant design reduces, which minimizes the sample bias problem existed in surveying single informants (Damanpour et al., 2009). Second, our study's theoretical framework is complex with non-linear and interaction effects, which is suggested as an effective approach to minimize the threat of common method bias (Wilden & Gudergan, 2014). Third, we reduced the potential for social desirability bias by providing informants explicit instructions to reflect the actual situation in their organization to answer the questions and by promising informants confidentiality and anonymity (Nell & Ambos, 2013). Besides taking these procedural controls, we examined the threat of common method bias using the Harman's single factor test and the marker variable technique following the approach suggested by Podsakoff et al. (2003). First, Harman's single factor test was conducted by performing a factor analysis of all constructs simultaneously. We found no single factor emerged, and the first factor accounted for 28% of the overall variance, indicating that common method bias likely did not affect the results. Second, we adopted the common method variable approach suggested by Lindell and Whitney (2001). More specifically, we applied the extended PLS algorithm suggested by Sattler et al. (2010) and Wilden and Gudergan (2014). We used a marker variable to estimate the loadings on every item in the PLS path model, in addition to each item's loading on its theoretical construct. We selected the respondents' assessments of their confidence in their ability to answer the questions, which was unrelated to other constructs in the model. Comparing the estimated path model relationships with and without each additional marker variable, we found no notable differences and all conceptualized paths maintained their statistical significance. Therefore, common method bias was not a concern in the study.

## **Analysis and results**

We employed partial least squares (PLS) to test our hypotheses. PLS is recommended for predictive research with complex models incorporating a large number of constructs and interaction effects and relatively small sample sizes (Wetzels, Odekerken-Schröder, & van Oppen, 2009; Hair et al., 2014). As shown in Appendix I, indicators for all constructs had acceptable loadings ( $> 0.50$ ) and bootstrapped critical ratios ( $> 1.96$ ). As shown in Table 2, all constructs had acceptable composite reliability ( $> 0.70$ ), ranging from 0.80 to 0.93. The average variance extracted (AVE) of all constructs were acceptable ( $> 0.50$ ), ranging from 0.54 to 0.87, indicating satisfactory convergent validity. Discriminant validity of the constructs is satisfactory as the square root of the AVEs (the off-diagonal elements in Table 2), were greater than all individual correlations. Finally, we tested the level of multicollinearity and found that the maximum variance inflation factor (VIF) score of all constructs was 1.55 lower than the cutoff value of 5.00 (O'Brien, 2007).

----- Insert Table 2 here -----

### *Structural model results*

We tested our hypotheses using a multiple-step procedure suggested by Frazier, Tix, and Barron (2004) and Morhart, Herzog, and Tomczak (2009) using Smart-PLS. As shown in Table 3, in step 1, we examined the main effects through a base model (Model 1). In step 2, the moderating effects of business ties and political ties, and the non-linear moderation effect of political ties were added to the base model (Model 2). Following Hair et al. (2014), we examined the goodness of fit (GoF) and standardized root mean square residual (SRMR) of the base model. The GoF value of the base model was 0.37 (greater than large GoF = 0.36, Wetzels et al., 2009) and SRMR was 0.067 (less than 0.80, Hu & Bentler, 1998), indicating satisfactory model fit.

Table 3 indicates that MO positively influenced both exploratory marketing capability ( $\beta = 0.22, \rho < 0.05$ ) and exploitative marketing capability ( $\beta = 0.37, \rho < 0.01$ ), supporting H1a and H1b. The results show that the interaction of MO and business ties had an insignificant effect on exploratory marketing capability ( $\beta = 0.09, \rho > 0.10$ ), rejecting H2a. However, the interaction of MO and business ties positively influenced exploitative marketing capability ( $\beta = 0.21, \rho < 0.05$ ), supporting H2b. The results also indicate that the interaction of MO and political ties positively influenced exploratory marketing capability ( $\beta = 0.18, \rho < 0.05$ ), while the interaction of MO and squared political ties negatively influenced exploratory marketing capability ( $\beta = -0.16, \rho < 0.10$ ). As such, results reveal that political ties had a non-linear moderation effect on the relationships between MO and exploratory marketing, supporting H3a. However, the results show that the interaction of MO and political ties ( $\beta = -0.04, \rho > 0.10$ ) and the interaction of MO and squared political ties ( $\beta = 0.10, \rho > 0.10$ ) had an insignificant effect on exploitative marketing capability, rejecting H3b.

Table 3 also reveals that exploratory marketing capability positively influenced customer-based performance ( $\beta = 0.18, \rho < 0.05$ ), and did not significantly influence financial-based performance ( $\beta = -0.11, \rho > 0.10$ ). We conducted the inequality test of two coefficients (or paths) using  $z$ -test suggested by Paternoster et al. (1998) to examine the difference between the effects of exploratory marketing on customer-based performance and financial-based performance. The results reveal that the relationship between exploratory marketing and customer-based performance was significantly different from that between exploratory marketing and financial-based performance ( $z = 2.21, \rho < 0.05$ ). Hence, we conclude that exploratory marketing capability had a stronger effect on customer-based performance than financial-based performance, supporting H4a. Further, results indicate that exploitative marketing positively influenced both customer-based performance ( $\beta = 0.20, \rho < 0.05$ ) and financial-based performance ( $\beta = 0.25, \rho < 0.01$ ). While the relationship between exploitative

marketing and customer-based performance appears to be slightly stronger than that of between exploitative marketing and financial-based performance, we found no significant difference between these relationships ( $z = 0.32$ ,  $p > 0.10$ ), rejecting H4b. In terms of control variables, the results reveal that none of the control variables (technological turbulence, market turbulence, organizational slack, firm size, firm age, and firm type) significantly influenced dependent variables.

----- Insert Table 3 here -----

#### *Robustness test*

We checked the robustness of the analysis by examining an alternative model. In particular, we checked the robustness of our results for H2 and H3 in alternative model specifications following a procedure suggested by Calantone and Rubera (2012). First, we removed the interaction effect between MO, political ties, and squared political ties and treated political ties as the control variable affecting exploratory and exploitative marketing capabilities. The results indicate that the interaction effect of  $MO \times$  business ties on exploratory marketing ( $\beta = 0.10$ ,  $p > 0.01$ ) and exploitative marketing ( $\beta = 0.18$ ,  $p < 0.05$ ) remained almost the same. Second, we perform the same procedure for H4 by removing the interactions between MO and business ties from the model and treating business ties as the control variable affecting exploratory and exploitative marketing capabilities. The results indicate that the interaction effect of  $MO \times$  business ties on exploratory marketing ( $\beta = 0.22$ ,  $p < 0.05$ ) and exploitative marketing ( $\beta = -0.04$ ,  $p > 0.10$ ) remained almost the same. Further, the interaction effect of  $MO \times$  squared business ties on exploratory marketing ( $\beta = -0.14$ ,  $p < 0.10$ ) and exploitative marketing ( $\beta = 0.06$ ,  $p > 0.10$ ) remained almost the same. Hence, the results are robust to alternative model specifications.

## **Discussion**

### *Contributions*

We contribute to the literature by showing that MO is not the sole foundation upon which firms build exploratory and exploitative marketing capabilities. Managerial social ties are also required to complement this process, particularly in the context of emerging economies with weak institutional environments. Our findings address calls for empirical validation of the distinctive role and outcomes of business and political ties (e.g., Sheng et al., 2011), delineating the different impacts of business and political ties on a firm's capacity to build exploratory and exploitative marketing capabilities. In particular, this study contributes to the literature in two important ways.

First, we show that business ties and political ties moderate the relationships between MO, exploratory marketing capability, and exploitative marketing capability in different ways. Our findings offer an extension to the work of Kemper et al. (2011), which shows managerial ties to be a foundation of the firm's marketing capabilities across four countries (China, Germany, Hong Kong, and the United States). Given the differences in the nature (e.g., goal convergence, longevity) and knowledge embedded in business and political ties, we draw attention to the different impacts that business and political ties have in helping to build exploratory and exploitative marketing capabilities. Our findings reveal that while business ties enhance the effect of MO on exploitative marketing capability, business ties do not complement the effort to build exploratory marketing capability. A possible reason is that business ties can increase a firm's dependence on its partners to perform marketing activities and may stifle the motivation to find innovative solutions to respond to market changes (Dong et al., 2013). Further, business ties may lock firms into a particular field of knowledge, which impedes the capacity to search for new knowledge to develop new marketing routines.

The results also show that while political ties enhance the effect of MO on exploratory marketing capability, the over-dependence on political ties may impede the effort to understand the market and motivation to create new marketing routines. Our results extend the work of Sheng et al. (2011) that show business ties have a stronger positive effect on firm performance than political ties, in the context of marketing capabilities. We show that an excessive level of political ties is not beneficial, as they may impede the effort to close the marketing capabilities gap. The results also reveal that political ties do not enhance the effect of MO on exploitative marketing capability. A possible reason is the distinct nature of political ties compared to business ties such as the lack of long-term commitment and goal convergence between the firms and government officials. While business partners share market knowledge to achieve common objectives and may identify each other's deficiencies, government officials focus on accommodating their personal goals. Furthermore, engagement in exploitative marketing activities requires fewer resources and financial support (e.g., bank credit) compared to initiating new marketing activities such as developing a new distribution channel.

Second, we provide an advanced understanding about the differential effects of exploratory and exploitative marketing capabilities on customer-based and financial-based aspects of new product performance. Departing from previous research that examines the effects of exploratory and exploitative capabilities on new product performance as a single construct (e.g., new product profitability), we adopt the premise that new product performance is multifaceted and examine the distinct effects of exploratory and exploitative marketing capabilities on the new product's customer-based and financial-based performance. The results of our study help to resolve the ambiguity regarding the performance implications of exploratory and exploitative marketing capabilities. In particular, the results support H4a and show that exploratory marketing capability is an essential driver of a new product's customer-based performance, while the cost of creating new routines and setting up new marketing



initiatives can diminish the effect of exploratory marketing on financial-based performance. However, the results do not support H4b and reveal that exploitative marketing capability drives both the new product's customer-based and financial-based performance. This unexpected result deserves greater attention, because the current literature suggests continuous refinement of existing marketing routines may create barriers to search for new ideas and novel ways to commercialize new products (e.g., Vorhies et al., 2011; Voss & Voss, 2013; O'Cass et al., 2014). A possible reason underlying our results is that exploitative marketing capability may help firms to minimize mistakes and promote the reliability of sales, communication, and distribution channels. Greater levels of efficiency and reliability allow for building consistent interactions with customers and promoting customer satisfaction and retention. Loyal customers are more likely to accept new products or repurchase other products from a firm, in which allows obtaining a secure market share (see also Slotegraaf & Pauwels, 2008).

#### *Managerial implications*

The findings raise important implications for managers. First, firms better equipped to comprehend market changes through both organizational processes and managerial ties will be more resilient and competitive. The saying that managers must develop a sixth sense to see around the corner appears wise. Because of resource and skill constraints, firms may not be able to afford to identify and respond to all market changes; and in this sense, managerial ties facilitate access to knowledge embedded in those networks to predict market changes and respond effectively. Furthermore, in emerging economies, like many in the Middle East, South-East Asia, and South America, business-support systems are weak and legal and regulatory institutions are underdeveloped (Wilson & Stupnytska, 2007; Soltani & Wilkinson, 2012), consequently business regulations are not completely enforced by government officials (Boso et al., 2013). In this sense, managerial ties assist firms to overcome weak institutional infrastructure in a market and access market knowledge that is not available to all firms.

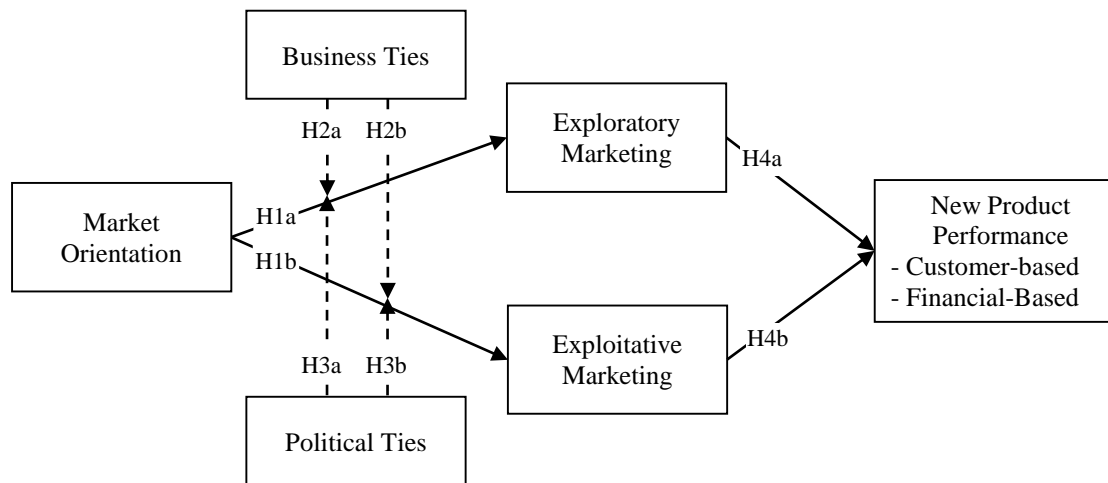
Second, managers must distinguish between business and political ties and understand their distinct roles. Due to differences in the nature of knowledge and actors within business and political ties, these ties have different impacts on marketing decisions and activities. Importantly, our findings show that firms must be cautious about overdependence on political ties, which may not be beneficial and could cause the firm to deviate from its effort to understand the market needs and adapt to market changes. Third, although both exploratory and exploitative marketing capabilities drive successful commercialization of new products, these capabilities have different centers of attention and influence new product's customer-based and financial-based performance in different ways. While exploratory marketing capability may diminish cost efficiency and profitability in the short-term, it allows firms to differentiate and commercialize new products using novel marketing methods and obtain market share, which will pay off in the long-term.

#### *Limitations and future research*

Our study has a number of limitations. First, this study is limited, to a certain extent because of its use of cross-sectional data, which leads to issues of causal inference. Future research using longitudinal data may help in evaluating the prescribed order of the investment in the development of relationships among exploratory and exploitative marketing capabilities and new product performance. Second, because the sample is manufacturing firms, the results might differ for service industries. In addition to addressing the limitations of the study, there are promising avenues for further research. It is suggested that established firms in a market possess greater accumulated knowledge, resources, and managerial ties than new entrants. Therefore, future research could examine how a firm's position in the market (e.g., established vs. new firms) influences its efforts in building exploratory and exploitative marketing capabilities and consequent outcomes. Furthermore, future research can investigate the role and outcomes different types of political ties. Given that scholars are increasingly paying

attention to the importance of political ties in both developed and developing countries (Zheng et al., 2014), it is important to understand how different forms of political ties (e.g., ties formed with local government organizations and ties formed with national government organizations) affect a firm's activities and performance, particularly from the marketing perspective.

**Figure 1** Theoretical framework



**Table 1** Profile of the sample

<b>Measure</b>	<b>Category</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Industry Sector</b>	Electronics & Telecommunication	17	10.1%
	Food	20	11.8%
	Chemical	15	8.9%
	Automotive	25	14.8%
	Industrial Machinery	34	20.1%
	Pharmaceutical	6	3.6%
	Consumer Durable	19	11.2%
	Others	33	19.5%
<b>Firm Size</b>	200 to 500 Employees	100	59.2 %
	500 to 1000 Employees	41	24.3 %
	Over 1000 Employees	28	16.5 %
<b>Firm Age</b>	1 to 20 Years	79	46.7 %
	20-40 Years	58	34.3 %
	Over 40 Years	32	19.0 %
<b>Innovation Mode</b>	Commercialized using the firm's internal resources	59	34.9 %
	Commercialized through partnership with other international firms	110	65.1 %

**Table 2** Construct-level measurement statistics and correlation matrix

	<b>AVE</b>	<b>CR</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>	<b>9</b>	<b>10</b>	<b>11</b>	<b>12</b>	<b>13</b>
<b>1</b> Market orientation	0.65	0.93	<b>0.81</b>												
<b>2</b> Exploratory marketing	0.63	0.89	0.32	<b>0.79</b>											
<b>3</b> Exploitative marketing	0.54	0.85	0.40	0.53	<b>0.73</b>										
<b>4</b> Business ties	0.62	0.82	0.05	0.13	0.03	<b>0.79</b>									
<b>5</b> Political ties	0.74	0.84	-0.02	0.11	0.08	0.44	<b>0.86</b>								
<b>6</b> Customer-based performance	0.58	0.80	0.40	0.36	0.35	0.01	0.10	<b>0.77</b>							
<b>7</b> Financial-based performance	0.60	0.81	0.31	0.07	0.21	0.06	0.13	0.53	<b>0.78</b>						
<b>8</b> Technological turbulence	0.87	0.92	0.14	0.01	0.01	0.12	0.16	0.10	0.15	<b>0.93</b>					
<b>9</b> Market turbulence	0.85	0.91	0.37	0.18	0.17	-0.07	0.06	0.18	0.12	0.30	<b>0.92</b>				
<b>10</b> Organizational slack	0.77	0.87	0.15	0.11	0.08	0.08	0.02	0.18	0.22	0.07	0.18	<b>0.87</b>			
<b>11</b> Firm size	-	-	0.15	-0.02	0.05	-0.08	0.00	0.08	0.12	0.12	0.18	0.08	<b>1.00</b>		
<b>12</b> Firm age	-	-	0.00	-0.08	-0.02	-0.22	-0.06	-0.05	-0.08	0.01	0.11	0.11	0.33	<b>1.00</b>	
<b>13</b> Firm type	-	-	-0.19	-0.16	-0.13	0.00	0.02	-0.09	0.06	0.08	-0.07	0.04	0.01	0.09	<b>1.00</b>

**Table 3** Path coefficients for hypothesized results

Independent Variables	Dependent Variables									
	Exploratory marketing		H1a	Exploitative marketing		H1b	Customer-based performance		Financial-based performance	
	Model 1	Model 2		Model 1	Model 2		Model 1	Model 2	Model 1	Model 2
Market orientation (MO)	0.22*	0.17*		0.37**	0.41**		0.11	0.11	0.06	0.06
Business ties (BT)	0.06	0.06		-0.02	-0.01		0.01	0.01	-0.01	-0.01
Political ties (PT)	0.09	0.09		0.10	0.08		0.03	0.03	0.01	0.01
Exploratory marketing							0.18*	0.18*	-0.11	-0.11
Exploitative marketing							0.20*	0.20*	0.25**	0.25**
<i>Interactions</i>										
MO × BT		0.09	H2a		0.21*	H2b				
MO × PT		0.18*			-0.04					
MO × PT squared		-0.16+	H3a		0.10	H3b				
<i>Control variables</i>										
Technological turbulence	-0.09	-0.08		-0.07	-0.07		0.04	0.04	0.10	0.10
Market turbulence	0.12	0.11		0.12	0.12		0.14	0.13	0.01	0.01
Slack resources	0.06	0.05		0.02	0.02		0.12	0.12	0.10	0.10
Firm size	-0.05	-0.05		-0.06	-0.06		0.06	0.06	0.13	0.13
Firm age	-0.06	-0.05		-0.01	-0.01		-0.07	-0.06	-0.07	-0.07
Firm type	-0.08	-0.06		-0.05	-0.03		-0.03	-0.03	0.07	0.07
R <sup>2</sup>	0.20	0.26		0.19	0.24		0.18	0.18	0.21	0.21

Notes: +  $p < 0.10$ , \*  $p < 0.05$ , \*\*  $p < 0.01$ .

## Appendix I Constructs and manifest variables

Constructs and Manifest Variables	Loading	T-value
<b>Market Orientation</b> (AVE=0.65 CR= 0.93) - <i>In our firm:</i>		
...we detect changes in our customers' product preference quickly.	0.83	28.13
...we detect fundamental shifts in our industry (e.g., competition, technology, regulation) promptly.	0.77	17.83
...we periodically review the likely effect of changes in our business environment on customers.	0.82	27.56
...when something important happens to a market, the whole organization knows about it in a short period.	0.81	23.73
...customer suggestions and comments are disseminated at all levels in the organization on a regular basis.	0.82	20.99
...we pay close attention to the changes in our customers' needs.	0.74	18.62
...if a major competitor launched a campaign to our customers, we implement a response immediately.	0.84	28.76
...we can effectively implement a marketing plan in a timely fashion.	0.85	33.25
<b>Business Ties</b> (AVE=0.62 CR= 0.82) - <i>Our firm has:</i>		
...extensively utilized relationship (e.g., personal ties) with managers of firms outside our industry.	0.65	4.80
...extensively utilized relationships with managers of firms in our industry.	0.84	6.65
...acquired information related to our product-market strategies from interactions with other firms.	0.85	7.51
<b>Political Ties</b> (AVE=0.74 CR= 0.84) - <i>Our firm has:</i>		
...extensively utilized relationships with government officials in various levels of government.	0.86	6.15
...extensively utilized relationships with officials in regulatory organizations such as tax bureaus and state banks.	0.87	6.73
...acquired information related to our product-market strategies (e.g., government regulations, tariffs, taxation) from our interactions with government officials.	0.85	6.11
<b>Exploratory Marketing</b> (AVE=0.63, CR= 0.89): <i>In marketing of this new product to the target market, our firm:</i>		
...developed completely new pricing processes.	0.79	33.25
...set up entirely new sales and distribution channels.	0.86	18.43
...developed entirely new advertising and/or promotion processes.	0.72	40.37
...developed entirely new methods of marketing communication with customers.	0.85	13.52
...implemented completely new types of marketing strategies.	0.75	36.28
<b>Exploitative Marketing</b> (AVE=0.54, CR= 0.85): <i>In marketing of this new product to the target market, our firm:</i>		
...refined current (e.g., existing, well established) pricing processes.	0.69	10.27
...improved current sales and distribution channels.	0.65	11.50
...refined current advertising and/or promotion processes.	0.81	20.73
...refined current methods of marketing communication with customers.	0.79	16.69
...improved current marketing strategies.	0.71	11.67
<b>Customer-based Performance</b> (AVE=0.58, CR= 0.80): <i>Over previous year, this new product:</i>		
...met customer acceptance goals.	0.72	7.07
...met sales growth goals.	0.78	7.71
...met market share goals.	0.77	7.36
<b>Financial-based Performance</b> (AVE=0.60, CR= 0.81): <i>Over previous year, this new product:</i>		
...met return on investment goals.	0.83	9.02
...met profitability goals.	0.78	8.96
...met operation efficiency goals.	0.71	8.15



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